

VZCZCXRO3432
RR RUEHGH
DE RUEHIN #0674/01 0820931
ZNY CCCCC ZZH
R 230931Z MAR 07
FM AIT TAIPEI
TO RUEHC/SECSTATE WASHDC 4596
INFO RUEHBK/AMEMBASSY BANGKOK 3627
RUEHBJ/AMEMBASSY BEIJING 6516
RUEHBY/AMEMBASSY CANBERRA 4482
RUEHKL/AMEMBASSY KUALA LUMPUR 3706
RUEHML/AMEMBASSY MANILA 9979
RUEHGP/AMEMBASSY SINGAPORE 6854
RUEHKO/AMEMBASSY TOKYO 8586
RUEHWL/AMEMBASSY WELLINGTON 1741
RUEHGZ/AMCONSUL GUANGZHOU 0086
RUEHHK/AMCONSUL HONG KONG 7759
RUEHGH/AMCONSUL SHANGHAI 0911
RUEHC/DEPT OF AGRICULTURE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDOG/DEPT OF COMMERCE WASHDC

C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 000674

SIPDIS

SIPDIS

STATE PASS USTR
STATE FOR EAP/TC,
USTR FOR STRATFORD AND ALTBACH
TREASURY FOR OASIA/LMOGHTADER
USDA FAS FOR OCRA/SMITH

E.O. 12958: DECL: 03/23/2014
TAGS: [ETRD](#) [ECON](#) [PREL](#) [TW](#)
SUBJECT: TAIWAN VICE PREMIER DISCUSSES BILATERAL
RELATIONSHIP

REF: A. TAIPEI 623

- [1](#)B. TAIPEI 609
- [1](#)C. TAIPEI 634
- [1](#)D. TAIPEI 179
- [1](#)E. TAIPEI 136

Classified By: AIT DIRECTOR STEPHEN M. YOUNG FOR REASONS 1.5 (b), (c)

[1](#)1. (C) Summary: Vice Premier Tsai told AIT Director Young March 22 that President Chen's speech of March 4 was not intended as any signal of a change in policy on Chen's commitment to the "four noes." She said the DPP wants to press the budget forward but the "pan Blue" KMT and PFP parties first need to settle their political differences. Tsai said she would work with Taiwan's security agencies to

SIPDIS
enhance cooperation in investigating export control cases. The Director summarized the status of ongoing bilateral trade initiatives. Tsai explained Taiwan is pursuing an anti-corruption drive that will emphasize negotiated settlements for white-collar crime. End Summary.

[1](#)2. (U) On March 22, AIT Director Young met with Vice Premier Ms TSAI Ing-wen to discuss progress on outstanding trade and other economic issues. The Director was accompanied by Econ Chief Moore. Tsai was accompanied by her chief of Staff, Chang Hsieng-huei.

Four Noes

[1](#)3. (C) While the Vice Premier's job description says she deals with economic issues, as a principal advisor to President Chen Shui-bian and other DPP leaders, Tsai wields considerable influence on both political and economic issues. The Director raised President Chen's speech of March 4, noting it came as a surprise to the U.S. because the speech

raised questions about Chen's commitment to the "four noes." (See refs A & B.) The Director observed that President Chen's speech at the Taipei American Chamber of Commerce annual banquet (Hsieh Nian Fan) on March 20 had reaffirmed his commitment to the "four noes." However, the Director underscored the seriousness with which the U.S. views any attempt to alter the status quo across the Taiwan Strait by either side. He said President Chen's March 4 speech has been seen as an initiative that could presage additional moves towards Taiwan independence and is thus a serious concern. Tsai responded somewhat legalistically by saying surprise would only exist if there were an intention to implement a change in policy. Her implication was clearly that there is no intent to change policy on President Chen's part. She added that the U.S. should not be surprised by President Chen making provocative remarks, she said, evidently in reference to the numerous episodes in the past when Chen has made remarks raising concerns about his commitment to the "four noes." The Director described Chen's series of provocative comments as akin to a constant challenge to the established policy, always seeking to expand the boundaries. He argued the policy construct of the past several decades has served Taiwan well by allowing it to democratize and produce a first-world economy, and thus should be sustained.

Defense Budget

14. (C) The Director raised the defense budget, noting that it isn't Taiwan's enemies who are hurt by the refusal to pass the budget. Tsai expressed regret for the long delay in funding Taiwan's purchases of the defense articles offered by the U.S., and said she hoped there could be more time given by Washington to fully understand the domestic political

TAIPEI 00000674 002 OF 003

situation in Taiwan. As an example of the challenging domestic situation, she said the opposition Kuomintang (KMT) apparently needs to settle legislative seat allocations with the People First Party (PFP) before the "pan Blue" opposition will be prepared to pass the budget.

Export Controls

15. (C) In response to the Director's request, Tsai promised to contact Minister of Justice Shih on export controls and to instruct Shih to make sure that MJIB Director General Yeh understands the need for MJIB to be more forthcoming in its investigation of export control cases in cooperation with the Board of Foreign Trade (BOFT). She added that if Minister Shih feels unable to produce results, she will follow up with the National Security Council Chairman Mark Chen. The Director noted this issue continues to receive high level attention and concern in Washington.

16. (SBU) Note: AIT is presenting the second Export Control and Related Border Security (EXBS) training program this year in Taipei March 20 - 22. Some 16 MJIB personnel have attended different portions of the workshop on Pre-license checks and Post Shipment Verifications (PLC/PSV) procedures. This significant participation by MJIB may be an indication of increasing willingness by MJIB to take a more active role in export control cases. End Note.

TIFA - Dates & CCA

17. (SBU) The Director summarized for Tsai the state of progress in implementing commitments made under the Trade and Investment Framework Agreement (TIFA) Council meeting in May 2006. He said the tentative date for the next Council meeting is June or July this year, but has not yet been finalized. Tsai observed that she had hoped the meeting could take place in the spring. The Director acknowledged

Taiwan's interest in holding the meeting as soon as possible, but said it would be not be possible for our side to do so. The Director noted the draft agreement on the Consultative Committee on Agriculture (CCA) has been completed and is ready for signature pending a final review by Taiwan's Executive Yuan. He noted the initial meeting for the CCA is projected to take place in the fall in order to allow senior officials from the U.S. Department of Agriculture to participate.

GPA

18. (SBU) The Director said AIT owes Taiwan a response on how to move forward on negotiating a bilateral government procurement deal. The Vice Premier noted that Taiwan has not yet seen a proposal that it likes on participation in the WTO GPA, but remains open if appropriate modalities can be found for it to join. She emphasized Taiwan is prepared to pursue both the bilateral route with the U.S. for a GPA and a multilateral route -- if the modalities are right.

Tax

19. (SBU) Regarding the bilateral tax agreement, the Director said we might be in a position to suggest informal consultations by mid-year. He noted Washington Agencies are working hard on resolving the modality issues. Tsai responded that Minister of Finance Ho Chih-ching strongly supports concluding a tax agreement and is prepared to send an MOF representative to the Washington office of the Taipei

TAIPEI 00000674 003 OF 003

Economic and Cultural Representative Office (TECRO/W) to facilitate discussions.

FTA

110. (C) The Director said he was well aware of Taiwan's keen interest in negotiating a Free Trade Agreement, as noted in his March 20 AmCham speech. He also said that Taiwan's degree of opening to China would be important in determining China's view of a U.S.-Taiwan FTA. Tsai said Taiwan needs to have an internal process to evaluate and maintain the trade and economic relationship between Taiwan and China and needs to discuss this with the U.S. as well. The worst scenario for Taiwan, said Tsai, is for the U.S. to conclude an FTA with South Korea and not have anything on the table for Taiwan. She said her analysis is that despite the challenges in the U.S.-South Korean FTA talks, she believes South Korea will accept it in the end. Once it is concluded, she fears it will affect to a large extent the confidence level in Taiwan. She said Taiwan is not lacking in talent, technology or money, but only in confidence for the future.

Fighting Corruption

111. (C) Picking up on the confidence theme, the Director asked if the recent increase in prosecutions of white-collar crime (see ref C) could also affect the confidence and dynamism of Taiwan's business sector. He noted that the charges filed over insider-trading could well have been over business practices that have until recently generally been honored in the breach in Taiwan. (See ref D for Minister Ho's comments on cross-equity holdings in Taiwan.) Tsai said the ruling DPP began "house cleaning" last year on business practices that had been a matter of course in the past and had received a high degree of tolerance. Acknowledging she and other officials have given the issue a great deal of thought, she said she has told Minister of Justice Shih that prosecutors must be careful in enforcing the regulations. She said the focus is to be on negotiated settlements. As an example of what she means by negotiated settlement, Tsai

cited the issue of prosecutors investigating fraudulent drug transaction pricing claims that result in the national health insurer reimbursing in excess of the actual cost of drugs (ref E). Tsai said Taiwan officials are giving the parties involved an opportunity to correct the record and to admit to fault while committing to not engaging in illegal actions in the future. She described it as akin to plea bargaining.

¶12. (C) Clearly proud of the anti-corruption drive, Tsai said Taiwan is improving in this area. She said the best evidence she can offer on this is that President Chen Shui-bian's wife is under trial and his son-in-law has been convicted of insider-trading. The Director observed that Taiwan is maturing as a democracy and it is important that the court system be a part of this process. Tsai noted that rules have not yet been established for behavior by legislators, suggesting this might be a future initiative by the DPP.
YOUNG